

Pegmont Mines Limited

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FAX TO: NATIONAL STOCK EXCHANGE OF AUSTRALIA

ATTENTION: MS JANE POLLARD

FAX NO: (02) 49291556

FROM: CHRIS LESLIE

SUBJECT: AUDITED FINANCIAL ACCOUNTS TO 31 DECEMBER 2010

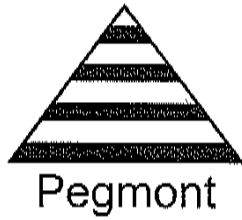
DATE: 31 MARCH 2010

Dear Scott,

We attach our Audited financial Report for the year ended 31 December 2010 together with the Chairman's report, review of operations and Directors' report.

Regards,


Chris Leslie



Pegmont Mines Limited

ABN 97 003 331 682

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Pegmont Mines Limited

ANNUAL REPORT 2010

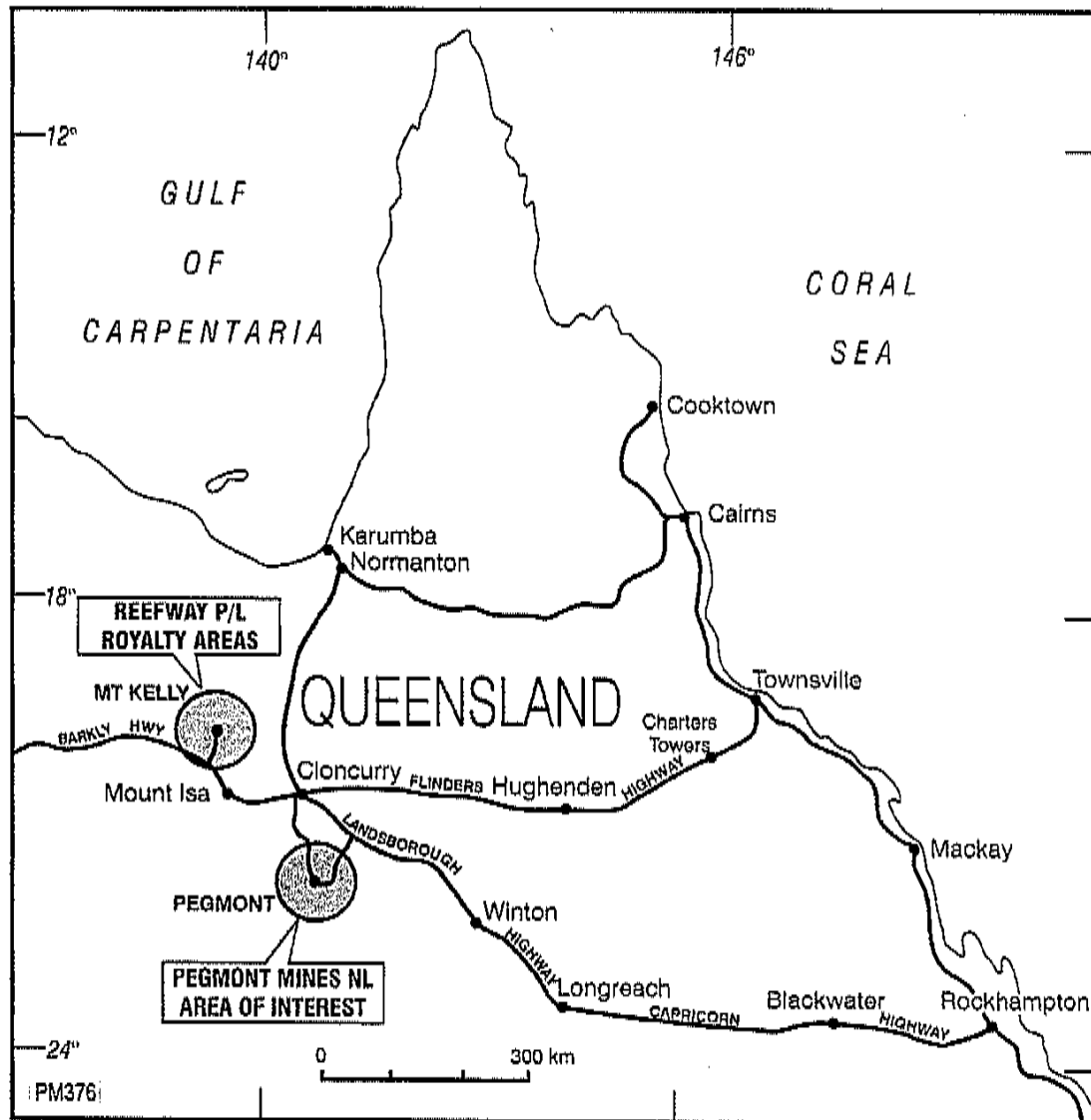


Figure 1 General Location, Mount Isa - Cloncurry Region, North Queensland

Glossary of Terms

Ag	Chemical symbol for Silver
Au	Chemical symbol for Gold
Co	Chemical symbol for Cobalt
Cu	Chemical symbol for Copper
Mo	Chemical symbol for Molybdenum
Pb	Chemical symbol for Lead
Zn	Chemical symbol for Zinc
Re	Chemical symbol for Rhenium
U	Chemical symbol for Uranium

Mineralisation

Process by which minerals are introduced and concentrated within a host rock, and the product of this process

Orebody

Zone from which a mineral or minerals of economic value can be extracted

JORC

Join Ore Reserves Committee

DD Diamond Drillhole

RC Reserve Circulation Drillhole

Pegmont Mines Limited

2010 PERFORMANCE HIGHLIGHTS

The company experienced mixed results during 2010, making a small share trading profit for the year, after a disastrous first half. However, an expanded exploration effort at Pegmont has resulted in a maiden JORC compliant resource estimate – a true milestone.

The company made a loss of \$1,369,408 (net profit of \$1,686,891 in 2009) due to exploration costs of \$1,106,894 and administration costs of \$604,456 not being covered by sharetrading profits.

The year in review was made up of two halves. After making respectable profits during 2009 from a pumped up stockmarket rally, we unfortunately became complacent about political risk. The Federal Government's announcement of a Resource Rent Tax (RRT) cost us over \$1 million in share trading losses as the market for resource investments went into a deep freeze. The unexpected share trading loss of \$1,493,000 for the half year to June, created a shortage of working capital which was difficult to make good. The second half recovered these losses to yield a small Net Trading Profit of \$244,887 for the year compared with a budget profit of \$1,500,000.

Exploration activity continued apace with expenditure increasing 37.2% to \$1,106,894 with the bulk of activity directed at grid drilling **Pegmont South**. Also, we achieved an important milestone by commissioning an independent review of the **Pegmont lead-zinc deposit** which estimated a maiden JORC compliant resource of 8.85Mt @ 5.0% Pb+Zn of Indicated and Inferred Resources at 3% (Pb+Zn) cut off. Three prospects, **Franks Find**, **Franks Find West** and **SC7** were drill tested but results were not encouraging. Infill drilling at New Hope gold-cobalt deposit was deferred to 2011

2011 OBJECTIVES

Now that we have attained a Resource status for the Pegmont lead-zinc deposit, our key objective is to press ahead with its commercialisation. The Board intends to raise funds through an issue to shareholders by mid year and then make a Public Offer associated with listing on the ASX. The extra funds will add to our current working capital, which can then be applied to increased exploration activity and sharetrading.

The proposed exploration activities during 2011 include:

- o Optimisation and review of the lead-zinc resources at Pegmont. This work will include the identification of higher grade target areas for future drilling and identification of material suitable for open cut mining. Our objective is to enhance the value of Pegmont as a significant deposit.
- o Undertake a major metallurgical test program on Pegmont material to confirm innovative processing of refractory oxide mineralisation. This program is expected to cost \$500,000.
- o Infill drilling the New Hope gold-cobalt deposit at a cost of \$200,000 which may provide sufficient data to support a JORC compliant resource and possible means of commercialisation.
- o Continue prospecting our exploration tenements to develop new drill targets. We have areas that are prospective for copper and molybdenum.

Our financial objective is to continue to make sharetrading profits, build the Company's working capital position, and expedite the commercialisation of our mineral portfolio.

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CHAIRMAN'S REPORT

2010 was a difficult trading year for the company in contrast to a very successful 2009:

- Consolidated operating loss was \$1,369,408 compared with an after tax profit of \$1,686,891 in 2009.
- No dividend was paid.

Net Trading Profit was \$244,887 after a write back of provision for impairment of \$2,578,196, compared to a profit target of \$1,500,000.

The reason for the poor trading performance was the proposed introduction of the Government's RRT and its disastrous impact on the resource segment of the share market, which is the major area in which we invest. Not only did share prices fall substantially but also, turnover dried up, causing very significant losses. The market improved in the second half of the year and we were able to recoup the losses which were realised in the first half.

Administration expenses of \$604,456 were well controlled and lower than the previous year, but exploration expenditure of \$1,061,894 (up 37% and which we expense) was the major reason for the operating loss. No tax was payable during the year.

Exploration expenditure was concentrated on grid drilling at Pegmont South, in order to add to our resource base and to upgrade to JORC quality estimate of the Pb+ Zn deposit at Pegmont. **We have announced a maiden resource of 8.85 million tonnes at 5% Pb+Zn at 3% cut-off.** This is an important milestone for the company as it lays the foundation for future work on this significant resource.

The more we drill, the more we are likely to discover. The Resource Estimation Report indicates a Mineralised Potential (of an additional) 9 to 15Mt at between 4 and 5.5% combined Pb+Zn at a 3% cut-off grade.

The exploration program during 2011 will be stepped up to include:

- Delineation of open cut tonnage for a quick entry into production.
- Identification of higher grade target areas for follow up drilling.

- Undertaking a metallurgical test program at a cost of around \$500,000.
- Infill drilling at the New Hope gold-cobalt deposit to provide sufficient data for a JORC resource estimate and to commence development studies.
- Continued prospecting of exploration tenements and targets including MMA (Mo), Lighting Creek (Cu), Bonanza Anomaly (Pb-Zn) and Sharpy Fault (Pb-Zn).

Although a great deal of time, effort and money has been spent on Pegmont, there is still a great deal of work to be done in terms of its commercialisation. We have now reached the stage where we can start to optimise the resource and seek higher grade mineralisation. Consideration as to how Pegmont can be best developed will be high on our agenda in 2011.

In order to carry out our 2011 program and to secure the future of the company, additional capital will be required. On March 4 we announced a two stage capital raising program to be completed by 31 December 2011, which includes a shareholder's entitlement issue at 10 cents per share and subsequently to seek a listing on the ASX through a Public Offer at 20 cents per share. The 2011 year will be an exciting year for the company, with the many years of effort starting to flow through to provide benefits to shareholders.

We are concerned about emerging political risk in Australia. This comes from two directions. The proposed introduction of a Super Profit Tax (SPT) in addition to all the other existing taxes including state royalties and federal income tax will make it much harder to get projects off the ground. The proposed imposition of a carbon tax will also reduce the competitiveness of the mining industry in relation to its overseas competitors as it is an intensive user of energy.

We thank you our shareholders for sharing the vision and your support and for the dedicated work undertaken by our staff, consultants and contractors. As a token of our appreciation, we allotted 315,000 shares to our exploration team and company secretary.

John M. Armstrong

John M. Armstrong
Chairman

Pegmont Mines Limited

Summary of Financial Results

Financial Results		2010	2009	2008	2007	2006
Gross Trading Revenue	\$000	18,660	20,940	7,297	36,314	20,875
Profit on share sales	\$000	(2,333)	2,105	(1,887)	8,230	7,374
Provision for share loss	\$000	2,578	946	(4,563)	(980)	(390)
Net Trading Profit	\$000	245	3,051	(6,415)	7,250	6,984
Exploration	\$000	(1,107)	(806)	(340)	(662)	(432)
Administration	\$000	(604)	(617)	(661)	(896)	(448)
Net Profit/(Loss) before tax	\$000	(1,369)	1,687	(7,138)	6,017	6,249
Net Profit/(Loss) after tax	\$000	(1,369)	1,687	(6,945)	3,916	4,258
Cash	\$000	2,149	1,014	610	4,043	3,591
Investments	\$000	1,872	4,289	3,003	7,528	5,271
Working Capital	\$000	4,125	5407	4031	10,913	7,894
Total Assets	\$000	7,881	9,206	7,743	15,424	12,261
Total Liabilities	\$000	47	27	17	864	1,016
Shareholders' Funds	\$000	7,834	9,179	7,726	14,670	11,245
Earnings per share (E)	cents	(2.7)	3.3	(13.6)	7.7	8.4
Dividends per share	cents	-	0.5	-	1.2	1.0
Net Tangible Assets per share	cents	15.2	17.9	15.1	28.9	22.2
Working Capital per share	cents	8.0	10.5	7.9	21.4	15.6
Share Price (last sale)	cents	10.0	8.0	6.0	18.0	12.0
Price Earnings ratio P/E	x	-ve	2.4	-ve	2.3	1.4
Shares on Issue	000	51,476	51,161	50,887	50,887	50,687
Options on Issue	000	-	-	-	-	1,549

Comment

Since September 2004, the Company applied the proceeds from the sale of Reefway Pty Ltd to share investing. This activity has generated a total Net Trading Profit of \$13,658,000 (after provisions) from Gross Trading Revenue of \$113,045,000 at an average a margin of 12.1% on turnover, thus, ensuring financial self-sufficiency.

From this trading income the Company has expended funds on exploration \$3,753,000, administration \$4,048,000, taxation \$4,629,000 and distributed dividends of \$1,375,000.

The current business model of the Company attempts to generate sufficient income from sharetrading to cover administration and exploration expenses and to maintain a minimum level of working capital of \$4 million

Since exploration expenditure during 2011 could increase to \$1,300,000 and administration expenses to \$700,000, the required rate of return on working capital (of approximately \$4.1 million) would need to be 48.8%. This is an ambitious target. Hence, the purpose of the Intended Capital Raising during 2011 (including listing on the ASX) is to increase working capital to about \$10 million. Such funds could support the higher level of activity to evaluate the Pegmont deposit and, also, to explore other prospects.

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REVIEW OF OPERATIONS

2010 was a year of two halves for Pegmont. Share trading activity has resulted in a net trading profit of \$244,887 (\$3,051,944-2009) after incurring a first half loss of \$1,237,366.

The consolidated trading results for 2010 are:-

	2010 Actual \$000	2009 Actual \$000
Operating Profit/(loss)	(2,333)	2,106
Write back impairment provisions	2,578	946
	<u>245</u>	<u>3,052</u>

The announcement of a resource RRT by the Federal Government during May 2010, caused a sharp price reaction among resource investments. This proposed tax necessitated defensive loss-taking to rebalance the Company's portfolio away from iron ore and coal developers.

The consolidated net profit /loss for the year was a loss of \$1,369,408 (profit of \$1,686,891-2009) summarised as follows:-

	2010	2009
Net Trading Profit	245	3,052
Investment income	80	51
Other income	17	8
	<u>342</u>	<u>3,111</u>
Administration	(604)	(617)
Exploration	(1,107)	(807)
Pre-tax profit/(loss)	<u>(1,369)</u>	<u>1,687</u>
Earnings per share	(2.7)	3.3

This result includes the write off of all exploration expenditure incurred during the year.

The provisional share price impairment was reduced by \$2,578,196 (\$946,065-2009) due to a deliberate loss-taking on non-performing shares and RRT affected iron ore and coal investments. The effects of the GFC are largely behind us although several impaired stocks have been retained for their recovery potential.

Administration costs declined slightly for the third year in succession due mainly to a freeze on salaries and directors fees.

Exploration expenditure increased by 37% due to increased drill activity particularly at Pegmont:-

	Metres Drilled	
	2010	2009
Pegmont	3,579	726
Other prospects	798	875
RC metres drilled	<u>4,377</u>	<u>1,601</u>
Expenditure \$1000	1,107	807

As a result of grid drilling at Pegmont, geological confidence was increased, which converted 1.6 Mt resource at 4.7%Pb and Zn to indicated status at a cut off grade of 3%.

The maiden JORC compliant resource is estimated at 8.85Mt@ 5%Pb and Zn at 3% cut off. This resource estimate has been checked by Hellman and Scofield Pty Ltd using data and geological interpretation of the mineralisation supplied by JM Geological Consulting Pty Ltd -February 2011(JMGC).

Company tax has not been provided or adjusted against profits as there were carried forward losses \$4,628,174 at 30 June 2010. Exploration and Administration expenses are tax deductible against all income including Net Trading Profit.

Gross trading Revenue declined 10.6% to \$18,659,561 (\$20,939,598-2009)

	2010 \$000	2009 \$000
Gross Trading Revenue	18,660	20,940
Trading Profit/(loss)	(2,333)	2,105
Gross margin %	(12.5)	10.1

Due to high volatility and unexpected political risk arising from the proposed RRT (since modified) trading turnover was limited to specific opportunities. The trading loss was offset by previous impairment provisions made against carried forward positions held in 2009.

Trading margins improved significantly during the second half year with the final quarter (October-December) profit averaging 18.9% on trading revenue.

The overall result, after provision adjustment was a net trading profit of \$244,887 for the

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year (\$3,051,944-2009) which, together with investment income of \$79,757, provided a return of 6.0% on \$5.4M working capital at 31 December 2009, compared to a small loss for the All Ordinaries Index.

Liquidity, or working capital (being current assets less current liabilities) declined to \$4,124,686 at year end (\$5,407,160-2009) due to the net loss of \$1,369,408 after administration and exploration expenses.

For a positive outcome in 2011, share trading profits are dependent upon no unpleasant surprises and continued growth in World economies to support elevated commodity prices.

The ongoing resource boom is very dependant upon political stability and moderation in commodity prices, particularly oil.

Budget for 2011 (indicative)

For the purpose of providing an indication of where the company is headed during 2011, the following budget is presented.

Trading Profit	\$000
Gross share turnover	20,000
Share trading profit	2,000
Margin	10%

Past experience indicates that portfolio turnover is likely to be four to five times working capital (currently \$4.1M). Although, profit margins vary considerably according to the nature of market volatility and individual stock. We are looking to average 10% or better. A more detailed comment is made under Investment Activities.

Investment Income

Because of heightened political risks arising from the possibility of a RRT and now a carbon tax, a policy of increased cash holdings has been implemented which together with higher interest rates, suggests that interest income could increase to \$100,000.

Administration expense

Since administration expense has been held down during the past three years, the Board has resolved to grant a 10% increase in salaries.

Exploration

Our budget for 2011 totals \$1.3M which allows for 4,000 metres of RC drilling and the expenditure of \$500,000 on metallurgical test work on the Pegmont deposit. Field work

normally starts mid-April, depending upon weather conditions and access.

Planned expenditures are:

	\$000
Pegmont Metallurgy	500
New Hope infill drilling	200
General Prospecting	600
	<u>1,300</u>

Our objective is to better understand the treatment process of Pegmont's refractory oxide and intermediate ores by an extended metallurgical test program starting in April. At New Hope, we aim to generate sufficient drill data to support a maiden Au-Co resource estimate. Other major prospects including Pegmont East, Bonanza Anomaly, Sharpy Fault IP anomaly and Lightning Creek provide walk-up drill targets.

Profit Forecast

At present we are budgeting for a break-even result of \$100,000 as follows:

	\$000
Share trading profit	2,000
Write back provisions	-
Investment income	<u>100</u>
	2,100
Administration	(700)
Exploration	<u>(1,300)</u>
Pretax profit	<u>100</u>

We recognize that the income figures (particularly for share trading) are aspirational and as such are subject to numerous risks and uncertainties.

The first three months of 2011 have proved difficult with choppy market conditions prevailing.

Actual results of Company performance could differ materially from those discussed in these forward-looking estimates and statements. The quarterly reports that are forwarded to shareholders, aim to update and discuss the ongoing activities of the Company and changes to estimates. Readers are invited to discuss such matters with management.

Although no particular reliance can be placed upon forward projections, they are provided to indicate the direction and magnitude of major variables.

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INVESTMENT ACTIVITIES

The Company invests mainly in resource equities which are in production or have advanced projects with near term production potential. Also, several seed capital positions are maintained which we hope will be realized this year.

Results for the year were:

	2010	2009
	\$000	\$000
Turnover	18,660	20,940
Realised Profit/ (loss)	(2,333)	2,106
Profit Margin %	(12.5)	10.1
All Ordinaries Index at year end	4,847	4,883

The share market commenced 2010 by declining to a low 4520 on 9 February on fears of an EEU (European Economic Union) meltdown over Greek debt problems and China tightening its credit policy. From that point it recovered to 5024.1 on 15 April only to be knocked by the Federal Government proposed Resource Rent Tax to close on a low of 4286 on 25 May. A second down-wave that took the index back to 4250 on 5 July was caused by tax-loss selling particularly in junior resource stocks. This marked the low for the year and a decline of 15.4% from its peak.

The half year trading results reflected the RRT trauma as follows:

	6 months to 30 June 2010
Trading profit	\$000
Trading losses	476
	(3,206)
less, Write back of impairment provisions	(2,730)
Net trading loss	<u>1,493</u>
	<u>(1,237)</u>

The implied ramifications of a proposed RRT forced the liquidation of promising investments in coal, and other long lead time projects. The new strategy, apart from holding increased cash, was placed on companies operating high grade deposits, mainly in gold.

The second half year experienced a more benign market environment as the Labor Government was forced to rethink the RRT and adjust to a SPT in order to be reelected. The All Ordinaries Index recovered from its low of 4250 on 5 July to close at

4846.9 on 31 December 2010, a rise of 14%, but only square for the year.

The second half trading results improved considerably:

	6 months to 31 Dec 2010
Trading Profit	\$000
Losses	1,224
	(828)
	<u>396</u>
Write back of impairment provisions	<u>1,085</u>
Net trading Profit	<u>1,481</u>

It is noted that the Government's intention remains to impose an additional but modified SPT on the resource industry and also a carbon tax, whereas, the Opposition is against such impositions. Thus, there remains considerable political risk overhanging the sharemarket.

Whilst the SPT stay a possibility, overseas investors will stay cautious about large greenfield development projects. This outcome could be exacerbated by rapid wage and capital cost inflation now experienced in Western Australia.

The third negative factor confronting the resource industry is the strength of the Aussie dollar largely attributed to rising interest rates relative to the US interest rates. The Reserve Bank of Australia continues to allude to inflationary pressures present in the Australian economy as an influencing factor in its currency deliberations. As higher inflation rates mean higher interest costs, causing higher exchange rates, this scenario is not conducive to a buoyant stockmarket.

In order to counter these negative possibilities our share portfolio liquidity ratio has been increased whilst the remaining investments are concentrated in producers with low borrowings and high cash balances.

Overall, the prospects for 2011 are encouraging as the US economy appears to have bottomed; Europe (UK & EU) led by Germany, is regaining traction despite several basket cases; and China continues to grow strongly. Japan is lagging due to continuing deflationary pressures and its tsunami crisis. Thus, investors remain cautious about possible "Black Swan" events, particularly in the Middle East.

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EXPLORATION ACTIVITIES

The Company's exploration activities are focussed on North-West Queensland within the Mt Isa-Cloncurry mineral province. This province contains world class base metal and uranium deposits.

The Cloncurry Fold Belt is host to a large silver-lead-zinc deposit at Cannington, copper-gold deposits around Selwyn and at Osbourne and very high grade molybdenum-rhenium deposits at Merlin.

The **Pegmont** lead-zinc deposit is situated in the same region as these deposits, on the edge of the Williams Granite Complex. It is a stratiform "Broken Hill-type" lead-zinc deposit associated with an apparently single horizon of magnetite rich banded iron formation (BIF) within a mineralised system that extends over 8km. The Pegmont deposit is found on the southern half of this system and extends approximately 2km on a north-east strike with a width of approximately 1km and extends at least 350 m below the surface with a south-easterly dip. The Pegmont deposit consists of several lodes which are characterized by recumbent folds, overprinted by upright faults and transected by a number of other faults.

A maiden Inferred and Indicated resource of 8.85Mt averaging 5% Pb+Zn has been calculated (JM Geological Consulting Pty Ltd – February 2011). This estimate is based on 381 holes and 40,409 metres. Also, Mineralized Potential at Pegmont (where drilling is not dense enough to estimate resources) is estimated between 9Mt and 15Mt at between 4.0 and 5.5% combined Pb + Zn at a 3% Pb + Zn cutoff (JMGC- February 2011)

A detailed report has been received from JMGC which summarizes all drilling data in digital form since discovery in 1972. Data from 381 holes totally 40,409 metres has been composited which resulted in 3,449 intersections. Of these holes drilled, 177 holes intersected 2% Pb+Zn or better over a drill length on average of 6 metres or more.

Future drilling will target higher grade zones within and extensional to the resource. Previous drilling was sited on a local grid (Newmont). Unfortunately the quality of these older holes cannot be validated and were therefore excluded from the "Indicated Resource" estimates. Most of them will have to be redrilled at some time down the track, particularly where higher grade mineralisation has been intersected.

The compilation of all previous drill data into a digital model is an important milestone towards possible commercialisation. However, a considerable amount of extra drilling remains to be completed on a comprehensive 50x50m grid to upgrade existing resources to Indicated status.

Apart from resource drilling, higher grade exploration areas at Pegmont East and the Bonanza Anomaly offer tempting targets.

Grid drilling at **Pegmont South** during the year outlined shallow mineralisation, which subject to economic factors, could lead to open pit possibilities. A total of 57 holes for 3,579 metres were drilled here. Additional infill drilling would be required for pit planning purposes. Already conceptual pit studies indicate a potential for 8.7Mt @ 4% Pb+Zn with a strip ratio of 6 to 1.

Pegmont Resources at 3% Pb + Zn Cut-Off							
	M Tonnes	Pb + Zn %	Pb + Zn Tonnes	Pb %	Pb Tonnes	Zn %	Zn Tonnes
Indicated	1,635	4.7	77,000	3.8	54,000	1.4	23,000
Inferred	7,217	5.0	361,000	3.5	251,000	1.5	110,000
Ind + Inf	8,852	5.0	438,000	8.4	305,000	1.5	133,000

Note: Figures are rounded

Mineralised Potential

Mineralised Potential at Pegmont is estimated at between 9 and 15 Mt at between 4% and 5.5% combined Pb + Zn at a 3% Pb + Zn cut-off. This mineralized potential has had insufficient exploration to define a Mineral Resource. Infill drilling is needed to further define this mineralisation, but it is uncertain that such drilling will convert this to a Mineral Resource.

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New Hope Gold-Cobalt deposit – 100%

The New Hope deposit is located within a small 8 Ha Mining Lease (ML 2487) located on the Mount Cobalt Shear some 5km south of Selwyn. Drilling has confirmed high grade gold-cobalt mineralisation over a 50m strike (open to the south) and open down dip/plunge below a 35 metre leached zone.

Mineralisation may be limited to 200 metres depth by the Mining Lease boundary but this depends upon the dip/plunge of mineralisation.

A program of 17 RC holes totaling 1,700metres is planned for mid-year to check infill and down dip values. This work may be sufficient for the compilation of a JORC compliant resource. The initial target is about 125,000 tonnes of 8-12 g/t gold + cobalt for 30,000 – 45,000 oz of gold insitu.

Regional Exploration – EPM 14491

Four holes were drilled during the year into Frank's Find and Frank's Find West (FFW) prospects in the Squirrel Hill Granite Complex totaling 438 metres. Results were disappointing with the best intersection of 1 metre assaying 3,530ppm Cu at 114-115m in FFW 002. This hole drilled to 120m intersected alternating pink, red and grey granite, moderately magnetic with disseminated pyrite throughout, with some specular haemetite and possibly chalcopyrite at 20-21m.

No further drilling is intended during 2011.

EPMA 18347 is progressing through Native Title agreements prior to granting. This application area lies to the north of EPM 14491 – Lightning Creek magnetic anomaly and north of the Frank's Find prospects.

Previous work has delineated copper-gold rock chip values over an annular geophysical magnetic feature of some 2-3Km radius. It is proposed to test this area with 400 metres of RC drilling upon grant during 2011.

Selwyn Sector

The Selwyn project area includes New Hope and nearby sub-blocks of EPMs 14491, 17052 and

17053. Extensive rock chip sampling delineated several anomalies.

SC7 geophysical anomaly, associated with a strong linear anomaly thought to be linked with a dolerite unit, was tested by four RC holes totaling 360 metres. No mineralisation was observed, but assay results did indicate anomalous rare earth values in one hole. Mort River West W001, of up to 2,000ppm.

Activity Summary

		2010	2009
Total Expenditure	\$000	1,061	806
Metres Drilled	m	4,377	1,601
Drill cost	\$/m	242	503
Number of Holes:			
Pegmont		57	4
New Hope		-	15
Frank's Find		4	1
SC7		4	-

Increased drill activity during 2010 significantly reduced the cost per metre. The 2011 programme envisages the drilling of 4,000 metres of which 1,700m will be at New Hope and the balance spread among several prospects including Pegmont South and possibly Pegmont East.

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Corporate Activities

Our corporate goal is to build a financially independent and self-sustaining resource company.

We do not borrow or use futures, options or derivatives to leverage investments but rely upon making timely decisions.

Since September 2006, the Board's policy is to be **self-funding** on a minimum working capital requirement of \$4 million. Active sharetrading has generated sufficient income to cover both overhead and exploration expenditures over this period.

The unforeseen **political risk** of a RRT was a big blow to us during 2010. Since then this tax has been modified to a SPT to be levied on Iron Ore, Coal and Petroleum. Thus, our investment decisions largely exclude opportunities in these sectors. As they say, "once bitten, twice shy!"

However, elevated commodity prices for gold and base metals have sparked an active exploration boom which does provide opportunities for investors like us. Provided that there are no more unpleasant surprises, we are hopeful of covering this years budgeted expenditures but not the extra drill out to enhance resources at Pegmont.

Pegmont Project

The **Pegmont project** has reached an important milestone in its future development. The process of estimating a JORC compliant resource in both tonnes and grade has highlighted the size and complexity of the deposit. Although the average grade of between 4% and 6% Pb + Zn is low by most standards, it is outcropping and relatively flat dipping to the south-east which makes it relatively cheap to explore.

Outside the resource blocks, there is mineralised potential of similar tonnage and grade to a depth of at least 350m below surface. This Mineralised Potential has had insufficient exploration to define a Mineral Resource. Extensive infill drilling will be required.

Assessment of the economic potential of the Pegmont deposit depends upon two main factors:

- Develop a metallurgical process that could process the refractory oxide and intermediate mineralization, thus reducing both capital and operating costs.
- Discover higher grade areas within the deposit which could average- up head grade during low price periods. Wide spaced drill results have intersected up to 12% Pb+Zn over 6 metres in drill hole PMD 141 at Pegmont East.

This year, a **major metallurgical program** costing \$500,000 will be undertaken to validate a new process developed by EcoTechnology Group Pty Ltd that could produce onsite commercial product with 90% recovery. Success would have profound implications for the economics at Pegmont.

Resource drilling will be dependent upon capital raising plans, although selecting higher grade target areas containing 6-8% Pb+Zn is likely. Analysis of drill intercepts of above 2% Pb+Zn (recorded in 177 holes out of a total 381 holes) suggest that an average thickness of 6m, at a grade of 8% Pb+Zn, could be reasonably expected from extensional drilling in sulphide material.

The Pegmont Lead/Zinc Project Qld. Resource Estimation Report notes that a substantial program (on a 50m grid basis) comprising of 160 drill holes for approximately 17,000 metres would be needed to provide increased confidence to upgrade resource categories. We estimate that the cost of this program of drilling could be \$2 million including assaying etc. This work, along with metallurgy, will be our top priority.

The report also mentions that the Mineralised Potential at Pegmont is between 9 and 15 Mt at between 4.0% and 5.5% Pb+Zn at a 3% Pb + Zn cut-off occupies a similar area as to that of the defined resources. Extensional drilling to an average depth of 125m could require 240 holes for 30,000 metres at an approximate drill cost of \$3.5 million. Follow up resource drilling could then be concentrated on higher grade target areas. There are a number of excellent (ie plus 10% Pb+Zn) targets waiting to be drilled.

Pegmont Mines Limited

There are three main pathways for developing the Pegmont Project:

- For the Pegmont deposit to become a satellite mine trucking ore to a nearby mill in the region.
- To develop several open pit and underground operations using standard floatation technology to treat higher grade sulphide mineralisation or.
- Develop an open cut operation using modern leach technologies to produce commercial end products on site; subject to a successful outcome of this year's metallurgical test program.

The requisite **funding options** will be considered as results come to hand. A ball park expenditure figure of \$10M to \$12m over the next 3-5 years would be required to complete a feasibility study on the Pegmont deposit.

The intended **Capital Raising Program**, announced on 4 March 2011, envisages a two stage capital raising program by 31 December 2011:

- A shareholder's Entitlement Issue at 10 cents per share, whereby any shortfall shares could be used to top up holdings to a marketable parcel of 10,000 shares.
- Subsequently, but no later than 31 December 2011, to seek the listing of the Company's shares on the ASX through a Public Offer at 20 cents.

The total amount sought would be approximately \$6 million, which together with existing working capital of \$4 million should provide sufficient funding to complete feasibility studies at Pegmont during the next two years. Alternative financial arrangements are also being considered.

Financial Condition

Corporate Assets

The Company's **Net Assets at 31 December 2010** were \$7,834,527 (\$9,178,735 – 2009) made up as follows:

	2010	2009
	\$000	\$000
Current Assets	4,172	5,434
Current Liabilities	(47)	(27)
Non Current Assets	3,710	3,772
Non Current Liabilities	-	-
Net Assets	7,835	9,179

The difference between the two years is the net loss of \$1,369,408 and issue of shares of \$25,200.

The Company's working capital position was \$4,124,686 at 31 December 2010, as represented by Current Assets less Current Liabilities.

Current Assets	2010	2009
	\$000	\$000
Receivables	150	130
Available for sale financial assets	1,872	4,290
Cash and cash equivalents	2,150	1,014
	4,172	5,434
Less:		
Current Liabilities		
Payables	(47)	(27)
Provision for tax expenses	-	-
Working Capital	4,125	5,407
cents per share	8.0	10.5

Cash balances were increased at year end to take advantage of near term market volatility. Surplus cash is held on deposit at call. Corporate funds, to pay for administration and exploration expense, are held separately.

Non-Current Assets	2010	2009
	\$000	\$000
Pegmont Field Camp	114	176
Pegmont Deposit	3,000	3,000
Regional tenements	350	350
Reefway royalty	100	100
New Hope deposit	145	145
	3,709	3,771

Pegmont Mines Limited

Non-current assets decreased by \$61,734 due to net depreciation of the Pegmont field camp.

Since all exploration expenditure is written off when incurred, the carried forward values of the Pegmont tenements have remained constant, despite additional mineralisation being discovered during the year.

Since the Pegmont deposit remains at the exploration phase requiring infill drilling, extensional drilling, metallurgical work and a feasibility study, its value remains largely indeterminate. However, results to date provide encouragement for continued assessment and enhancement in potential value.

Other Income

	2010	2009
	\$000	\$000
Interest received	65	26
Dividends received	15	24
Other revenue	17	7
Total	<u>97</u>	<u>57</u>

Interest received increased with the higher level of cash balances as invested funds. Cash holdings were increased to offset the effect of adverse sharemarket volatility.

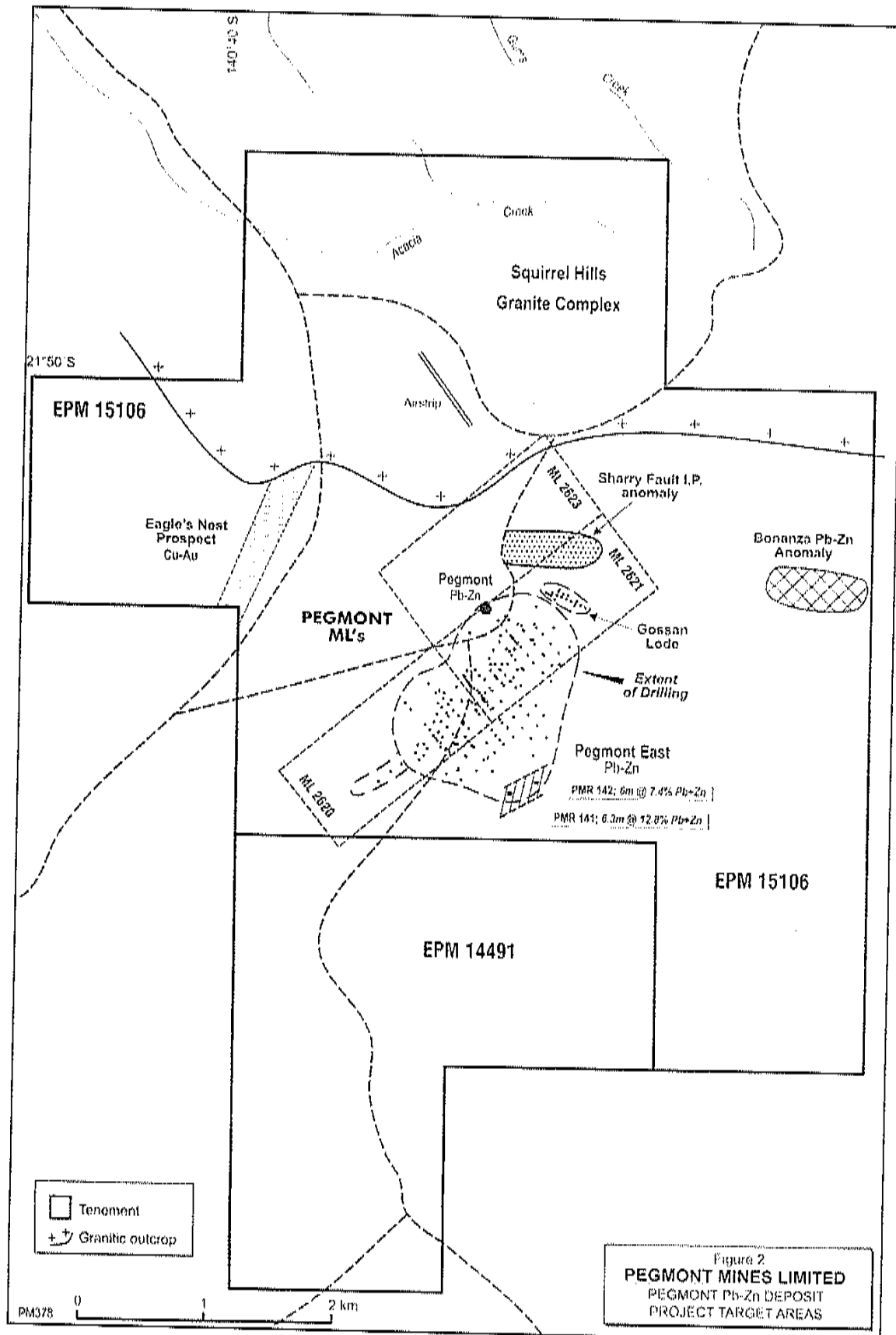
Expenses

Administration expenses decreased marginally from \$617,297 (2009) to \$590,856 due to lower secretarial and office expenses:

	2010	2009
	\$000	\$000
Audit & Directors Fees	254	261
Secretarial + office	198	219
Other	139	137
	<u>591</u>	<u>617</u>
Exploration Expense	<u>1,106</u>	<u>806</u>

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Pegmont Mines Limited



Pegmont Mines Limited

EXPLORATION TENEMENTS

TENEMENT	NAME	STATUS	REGISTERED HOLDER	DATE OF GRANT	DATE OF EXPIRY	AREA (sq-km)
EPM 15106	Pegmont Extended	Granted	Pegmont Mines Ltd	11.08.2006	10.08.2011	57.2
EPM 14491	Pegmont Extended #2	Granted	Pegmont Mines Ltd	11.08.2006	10.08.2011	108.8
ML 2620	Pegmont No. 1	Granted	Pegmont Mines Ltd	24.01.1974	31.01.2012	1.3
ML 2621	Pegmont No. 2	Granted	Pegmont Mines Ltd	24.01.1974	31.01.2012	1.3
ML2623	Pegmont No. 4	Granted	Pegmont Mines Ltd	24.01.1974	31.01.2012	1.3
ML2487	New Hope	Granted	Pegmont Mines Ltd	3.09.2009	1.01.2019	0.8
EPM17052	Mort River North	Granted	Pegmont Mines Ltd	3.02.2010	2.02.2014	1.2
EPM17053	Mort River South	Granted	Pegmont Mines Ltd	3.02.2010	2.02.2014	1.5
EPMA18347	Squirrel Hills	Application	Pegmont Mines Ltd			84.4

The above exploration tenements are 100% owned by Pegmont Mines Limited.

ROYALTY TENEMENTS

The following tenements in the Mount Isa region are subject to the Reefway Royalty Deed dated 28 September 2004, entered into with CopperCo Limited (In Receivership)

MLs: 5426, 5435, 5446, 5447, 5474, 5476, 5478.
 EPMs: 9916, 11637, 11669, 11670, 11672,
 11777, 12589, 13331, 13739, 14112, 14149

The Company's longer term objective is to build a portfolio of Royalty Tenements over active production centers (such as the Reefway tenements) in order to create a royalty cash flow to fund future exploration activities.

Pegmont Mines Limited

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices that have been revised and updated, and in place since the 1st of July 2005. These corporate governance practices comply with the NSX Corporate Governance Council recommendations unless otherwise stated.

BOARD OF DIRECTORS

Role of the Board

The Board is responsible for ensuring that the Company is managed in a manner which protects and enhances the interests of its shareholders and takes into account the interests of all stakeholders. To fulfil this role, the Board is responsible for setting the strategic directions for the Company, establishing goals for management, monitoring the achievement of these goals and ensuring policies and procedures are applied that facilitate accountability and performance.

Because of the limited size of the Company and its financial affairs and operations, the use of separate committees of the Board of Directors is not considered generally appropriate. All matters that might properly be dealt with by such committees are currently dealt with by the full Board of Directors. Decisions of the Board are, to the extent practicable, unanimous. There were no occasions during the year when decisions were not unanimous.

Composition of the Board

The names and details of the Directors of the Company in office at the date of this Statement are set out in the Directors' Report.

The composition of the Board is determined using the following principles:

- Persons nominated as Non-Executive Directors shall be expected to have skills, experience and expertise of benefit to the Company and to bring an independent view to the Board's deliberations. Persons nominated as Executive Directors must be of sufficient stature and security of employment to express independent views on any matter.
- The Chairperson should ideally be non-executive and independent and be elected by the Board based on his/her suitability for the position. Currently the Chairperson is a Non-Executive Director. The Board believes that this Chairperson is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairperson.
- All Non-Executive Directors are expected voluntarily to review their membership of the Board from time-to-time taking into account length of service, age, qualifications and expertise relevant to the Company's then current policy and programme, together with the other criteria considered desirable for composition of a balanced Board and the overall interests of the Company.
- Under the Company's Constitution, the minimum number of Directors is three. At each Annual General Meeting, one third of the Directors (excluding the Managing Director) must resign, with Directors resigning by rotation based on the date of their appointment. Directors resigning by rotation may offer themselves for re-election.
- The Directors may appoint a Managing Director for a fixed term not exceeding five (5) years (Article 71(a)) unless otherwise approved by members in General Meeting.
- The remuneration of a Managing Director shall not exceed 15 times average weekly Earnings of Employees (AWE) (Article 6.5 (e)).
- The Chairperson and Deputy Chairperson hold office until otherwise determined by Directors, or until they cease to be Directors but in any case for a period not exceeding five (5) years (Article 9.6(a)) unless otherwise approved by members in General Meeting.

Pegmont Mines Limited

The Company considers that the Board should have at least three Directors (minimum required under the Company's constitution) and strives to have a majority of independent Directors but acknowledges that this may not be possible at all times due to the size of the Company. Currently the Board has three Directors, including two non-executive directors of whom one is the Chairman.

The number of Directors is maintained at a level which will enable effective spreading of workload and efficient decision making.

The Board has accepted the following definition of an Independent Director:

"An Independent Director is a Director who is not a member of management (a Non-Executive Director) and who:

1. is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly with, a substantial shareholder of the Company;
2. has not within the last three years been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
3. is not a principal of a professional adviser to the Company or another group member;
4. is not a significant consultant, supplier or customer of the Company or other group member, or an officer of or otherwise associated, directly or indirectly with, a significant consultant, supplier or customer;
5. has no significant contractual relationship with the Company or another group member other than as a Director of the Company;
6. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to materially interfere with, the Director's ability to act in the best interests of the Company."

The Company considers a significant consultant, supplier or customer to be material if the total of their annual invoices amounts to more than 5% of the Company's total expenditure in that category.

The composition of the Board is reviewed on an annual basis to ensure the Board has the appropriate mix of expertise and experience. Where a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board determines the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities and then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Performance of Directors

The performance of all Directors and the Board as a whole is reviewed annually in accordance with the Company's corporate governance guidelines (effective 1 July 2005).

Conflict of Interest

In accordance with the Corporations Act 2001 and the Company's constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes a significant conflict exists, the Director concerned does not receive the relevant Board papers and is not present at the Board meeting whilst the item is considered. Details of Director's related entity transactions with the Company are set out in the related parties note in the financial statements.

Pegmont Mines Limited

Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice at the Company's expense. A copy of advice received by the Director is made available to all other members of the Board.

Remuneration Report

The Board of Directors maintains remuneration policies which are aimed at attracting and retaining a motivated workforce and management team. The intention is to match the outcomes from the remuneration system with the performance of the Company and ultimately the value received by our shareholders on a long-term basis.

As an overall policy, the Company will remunerate in such a way that it:

- motivates Directors and management to pursue the long-term growth and success of the Company; and
- demonstrates a clear relationship between key executive performance and remuneration.

Full details of Directors' and specified executives' remuneration are set out in the Directors' Report and in the Directors' and Executives' Disclosures note in the financial statements.

Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate for Pegmont.

Non-Executive Directors' fees are paid within an aggregate limit which is approved by the shareholders from time to time, which is currently set at \$100,000.

Board Procedures and Policies

The Board applies the additional following procedures and policies:

The Board promotes ethical and responsible decision making by applying a corporate code of conduct which provides a framework for decisions and actions in relation to ethical conduct in employment. The Board sets guidelines for buying and selling securities in the company.

The Board safeguards the integrity in financial reporting by requiring the Chief Executive Officer and Chief Financial Officer (or equivalent) to make a statement (at the relevant times) that the Company's financial systems are founded on a system of risk management and internal compliance and control which implements the policies adopted by the board and the company's risk management and internal compliance and control systems is operating efficiently and effectively in all material respect.

The Board ensures the company makes timely and balanced disclosure by adopting a continuous disclosure policy.

The Board respects the rights of shareholders by adopting a shareholder communications strategy which aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. The Board requests the external auditor to attend all annual general meetings of the company, to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Board determines the Company's 'risk profile' and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

Pegmont Mines Limited

Directors' Report

The Directors' present their report on the results of the Company for the year ended 31 December, 2009 and the state of affairs at that date.

Directors

The names of the Directors in office at the date of this report are:

Mr John M Armstrong Non-Executive Chariman

Mr Ian N S Sloan Non-Executive Director

Mr Malcolm A Mayger Managing Director

Principal Activity

The principal activities of the Company in the course of the year were mineral exploration and resource investment.

Operating Results

The consolidated loss after providing for income tax and eliminating minority equity interests amounted to \$1,369,408 (2009- profit \$1,686,891).

Dividends

No dividend was paid during the year (2009-\$255,809).

Review of Operations

Information on the operations of the company during the year and the results of those operations are set out in the section titled "Review of Operations" in this Annual Report.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Company that occurred during the financial year, other than a decrease in the stock market which has decreased the carrying value of the Company's share portfolio. A provision write back of \$2,578,196 was made at year end.

Matters Subsequent to the end of the Financial Year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in financial years subsequent to the financial year ended 31 December 2010, other than the announcement by the Company of an intended Capital Raising programme in 2011.

Options over Unissued Capital

The total number of options issued as at 31 December 2010 was NIL (2009-NIL). At 31 December 2010 there were no unissued shares under option.

Environmental Issues

The Company is subject to performance bonds for the rehabilitation of a mining tenement. These performance bonds are required by the Mines Department to ensure that rehabilitation occurs as required under environmental regulation. Surface disturbance has been restored. There were no environmental incidents during the year. Occupational Health and Safety requirements were met through the development of an emergency plan, the provision of formal training to Pegmont contractors, toolbox meetings, site inspections and record keeping. There were no reportable incidents during 2010.

Pegmont Mines Limited

Auditors' Section 307C Declaration

The Directors

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i. no contraventions of the auditor independence requirements of the Act in relation to the review of the 31 December 2010 financial report; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

Frank Vrachas
Lead Auditor

Meeting of Directors

During the financial year, 5 meetings of directors were formally held. The number of meetings attended by each director during the year is as follows:

Mr John M Armstrong	5
Mr Ian N S Sloan	5
Mr Malcolm A Mayger	5

In addition to these meetings, the non-executives directors are continuously updated on current activities.

Directors' Qualifications and Experience

ARMSTRONG, John M. (Non-Executive Chairman). BSc, MBA, FFin, FAICD

Mr Armstrong, aged 75 is a professional company director with over 40 years experience in investment banking and resource finance at senior management and director levels.

MAYGER, Malcolm A. (Executive Managing Director) BCom, CA, FAICD

Mr Mayger, aged 71 has over 40 years experience in exploration, mining and investment. Malcolm Mayger founded the company in 1987 and has guided its subsequent development from concept to an explorer with investment interests.

SLOAN, Ian N. S. (Non- Executive Director) B. Tech (Mech.) MAICD.

Ian Sloan, age 67, is an Engineer with extensive mining and industrial experience. He is a director of Hill End Gold Ltd.

Pegmont Mines Limited

Directors' and Executives' Emoluments

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the accounts or received as the fixed salary of a full-time employee of the Company) by reason of a contract made by the Company or by a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest other than:

- a) Consulting fees paid to Malcolm A Mayger Pty Ltd, an entity of which Mr Malcolm Mayger is a Director and shareholder.
- b) Consulting fees paid to Armstrong Associates Pty Limited, an entity of which Mr John Armstrong is a Director and shareholder.
- c) Consulting fees paid to The Pitt Street Trust of which Mr Ian Sloan is a Director and beneficiary.
- d) Consulting fees paid to Fonlic Accounting & Investments Pty Limited, an entity of which Mr Chris Leslie is a Director and shareholder.

The Company's remuneration policy is disclosed in the Corporate Governance Statement proceeding this report.

Details of the nature and amount of each payment to each director and each of the officers of the company receiving emoluments are set out in the following tables.

Name	Service	Fees for Current year \$	Total Remuneration \$	Options issued
M Mayger	Executive Managing Director	165,000	165,000	NIL
J Armstrong	Non-Executive Chairman	50,000	50,000	NIL
I Sloan	Non-Executive Director	20,000	20,000	NIL

CD Leslie	Company Secretary	120,000	120,000	NIL
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Pegmont Mines Limited

Directors' Interest in the Share Capital of the Company as at the date of this report.

		Shares at 31/12/2009	Acquired during the year	Shares at 31/12/2010	
JM Armstrong	Direct	-	75,000	75,000	
	Indirect	750,000	(75,000)	675,000	
INS Sloan	Indirect	50,000	-	50,000	
MA Mayger	Direct	300,000	-	300,000	
	Indirect*	30,719,045	-	30,719,045	
		31,419,045	-	31,819,045	

Shareholdings since 31/12/2010 have not changed to the date of this report.

*Includes Pegasus Enterprises Ltd in which MA Mayger is a controlling shareholder.

Signed at Sydney in accordance with a resolution of Directors.


Malcolm A Mayger

Dated 18 March 2011

Pegmont Mines Limited

Directors' Declaration

The directors declare that the attached financial statements and notes:

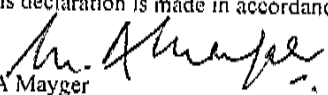
- a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- b) give a true and fair view of the Company's and controlled entities' financial position as at 31 December 2010 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

- a) the financial statements and notes are in accordance with the Corporations Act; and
- b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.


MA Mayger

Director

Sydney, 18 March 2011

Pegmont Mines Limited

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Income Statement

For The Year Ended 31 December 2010

Note	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue from continuing operations				
Gross revenue from share trading	18,659,561	20,939,598	17,428,382	16,155,593
Cost of sales	20,992,870	18,833,719	19,634,850	14,423,638
Revenue from sale of shares	(2,333,309)	2,105,879	(2,206,468)	1,731,955
Write back of provision for shares	2,578,196	946,065	2,465,199	1,058,334
Net trading profit after provisions	244,887	3,051,944	258,731	2,790,289
Interest received or due and receivable from other Corporations	65,355	26,528	65,355	26,528
Dividends received	14,402	24,378	14,402	19,878
Other revenue	17,298	7,828	17,298	7,828
Expenses from continuing operations	341,942	3,110,678	355,786	2,844,523
Audit fees	(24,000)	(26,100)	(24,000)	(26,100)
Directors fees	(235,000)	(235,000)	(235,000)	(235,000)
Exploration written off	(1,106,894)	(806,490)	(1,106,894)	(806,490)
Impairment for subsidiaries	-	-	(13,844)	266,155
Stock exchange fees	(9,522)	(8,406)	(9,522)	(8,406)
Share registry fees	(8,674)	(8,309)	(8,674)	(8,309)
Secretarial & office expenses	(188,311)	(202,012)	(188,311)	(202,012)
Superannuation	(14,661)	(14,107)	(14,661)	(14,107)
Other expenses from ordinary activities	(124,288)	(123,363)	(124,288)	(123,363)
Profit before income tax	(1,711,350)	(1,423,787)	(1,725,194)	1,157,632
Income tax attributable	(1,369,408)	1,686,891	(1,369,408)	1,686,891
Profit attributable to members of Pegmont Mines Ltd	(1,369,408)	1,686,891	(1,369,408)	1,686,891
Earnings per share for profit attributable to the ordinary equity holders of the Company:	19 (\$0.027)	\$0.033	(\$0.027)	\$0.033

The above income statement should be read in conjunction with the accompanying notes.

Pegmont Mines Limited

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Balance Sheet

As At 31 December 2010

	Note	Consolidated		Parent entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
Current Assets					
Receivables	3	150,219	130,105	149,120	129,577
Available for sale financial assets	4	1,872,398	4,289,971	1,621,784	3,763,917
Cash and cash equivalents	5	2,149,474	1,014,329	2,149,472	1,014,327
Total Current Assets		4,172,091	5,434,405	3,920,376	4,907,821
Non-Current Assets					
Held-to-Maturity Investments	6	-	-	251,715	526,584
Property, Plant & Equipment	7	114,416	176,150	114,416	176,150
Mineral Tenements	8	3,595,425	3,595,425	3,595,425	3,595,425
Total Non-Current Assets		3,709,841	3,771,575	3,961,556	4,298,159
Total Assets		7,881,932	9,205,980	7,881,932	9,205,980
Current Liabilities					
Payables	9	47,405	27,245	47,405	27,245
Total Liabilities		47,405	27,245	47,405	27,245
Net Assets		7,834,527	9,178,735	7,834,527	9,178,735
Equity					
Contributed equity	10	2,900,386	2,875,187	2,900,386	2,875,187
Reserves	11	4,556,193	4,556,193	4,556,193	4,556,193
Retained profits	11	432,215	1,801,622	377,948	1,747,355
Total parent entity interest		7,888,794	9,233,002	7,834,527	9,178,735
Outside equity interests in controlled entities		54,267	54,267	-	-
Total Equity		7,834,527	9,178,735	7,834,527	9,178,735

The above balance sheet should be read in conjunction with the accompanying notes.

Pegmont Mines Limited

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2010

Statement of Changes in Equity

For the year ended 31 December 2010

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Total equity at the beginning of the financial year	9,178,735	7,725,653	9,178,735	7,725,653
Total recognised income and expense for the year	(1,369,408)	1,686,891	(1,369,408)	1,686,891
Transactions with equity holders in their capacity as equity holders:				
Dividend paid during the year	-	(255,809)	-	(255,809)
Shares issued- note 10	25,200	22,000	25,200	22,000
Total equity at the end of the financial year	7,834,527	9,178,735	7,834,527	9,178,735
Total recognised income and expense for the year is attributable to:				
Members of Pegmont Mines Ltd	(1,369,408)	1,686,891	(1,369,408)	1,686,891
Minority interests	-	-	-	-
	(1,369,408)	1,686,891	(1,369,408)	1,686,891

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Pegmont Mines Limited

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Cash Flow Statement

For The Year Ended 31 December 2010

Note	Consolidated		Parent entity	
	2010 \$	2009 \$	2010 \$	2009 \$
Cash Flows from Operating Activities				
Cash receipts in the course of operations	97,055	2,164,613	97,055	1,786,189
Cash payments in the course of operations	(2,869,239)	(549,111)	(2,869,239)	(549,111)
Net cash from operating activities	17	(2,772,184)	(2,465,683)	1,237,078
Cash Flows from Investing Activities				
Purchase of plant, property & equipment	(6,452)	-	(6,452)	-
Payments for investment securities	4,995,429	(340,546)	4,688,407	71,805
Exploration expenditure	(1,106,894)	(806,490)	(1,106,894)	(806,490)
Exploration acquisition	-	(145,425)	-	(145,425)
Net cash provided for investing activities	3,882,083	(1,282,461)	3,575,061	(880,110)
Cash Flows from Financing Activities				
Increase in creditors	20,160	9,761	20,160	9,761
Increase/ decrease in debtors	(20,114)	305,799	(19,593)	271,863
Dividend paid	-	(255,809)	-	(255,809)
Share issue	25,200	22,000	25,200	22,000
Net cash flow from financing activities	25,246	81,751	25,767	47,815
Net increase (decrease) in cash and cash equivalents	1,135,145	404,792	1,135,145	404,792
Cash and cash equivalents at the beginning of the financial year	1,014,329	609,537	1,014,327	609,535
Cash and cash equivalents at the end of the financial year	16	2,149,474	2,149,472	1,014,327

The accompanying notes form part of these financial statements

Pegmont Mines Limited

Notes to the Financial Statements

For The Year Ended 31 December 2010

1. Statement of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Pegmont Mines Ltd ("the Company") as an individual entity and the consolidated entity consisting of Pegmont Mines Ltd and its subsidiaries.

a) Basis of preparation

This general purpose financial report has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations and complies with other requirements of the law. All amounts are presented in Australian dollars, unless otherwise noted.

Compliance with IFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRSs). Compliance with AIFRSs ensures that the consolidated financial statements and notes of Pegmont Mines Ltd comply with IFRSs.

Historical cost convention

These financial statements have been prepared under the historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Pegmont Mines Ltd ("the Company") as at 31 December 2010 and the results of all controlled entities for the year then ended. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Pegmont Mines Ltd and its controlled entities are referred to in this financial report as the Group or the consolidated entity.

The effects of all intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated in full.

Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated profit and loss account and balance sheet respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated profit and loss account from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control exists.

c) Income Tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the national income tax rate, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially accepted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

d) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

Pegmont Mines Limited

Notes to the Financial Statements

For The Year Ended 31 December 2010

1. Statement of Accounting Policies (Continued)

d) Goods and Services Tax (GST) (continued)

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

e) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

f) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

g) Royalties and other mining imposts

Ad valorem royalties and other mining imposts are accrued and charged against earnings when the liability from production or sale of the mineral crystallises. Profit based royalties are accrued on a basis which matches the annual royalty expense with the profits on which the royalties are assessed (after allowing for permanent differences).

h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents include cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

i) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition. Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

j) Fair Value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value, less impairment provision, of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

k) Plant and Equipment

Plant and equipment is stated at historical cost less depreciation. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset during their expected useful life of 3 to 5 years.

l) Investments and Other Financial Assets

The Group classifies its investments in the following categories: loan and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. This designation is re-evaluated at each reporting date.

Pegmont Mines Limited

Notes to the Financial Statements

For The Year Ended 31 December 2010

1. Statement of Accounting Policies (Continued)

m) Impairment of assets

Assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

Non financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

n) Trade Payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition.

o) Provisions

Provisions are recognised when the Company has a present obligation and it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

p) Exploration expenditure

Expenditure on acquisition of tenements relating to an area of interest is carried forward where rights to tenure of the area of interest are current and:

- i) the area has demonstrable economic grade, mineralisation; or
- ii) exploration and evaluation activities are continuing in an area of interest but have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.
- iii) Exploration expenditure is written off in the year during which it is incurred.

At certain milestones during the course of the evaluation of a project the carrying value is reviewed to a fair value, taking into account the likelihood of commercialisation and additional costs likely to be incurred to reach that stage. The last assessment of the carrying value of the Pegmont mining leases occurred in year 2000. Since then, a considerable amount of drilling has been undertaken which has led to the calculation of a maiden JORC compliant Resource in February 2011. Based on this information a review of the carrying value will be undertaken.

At the end of each financial year the Directors assess the carrying value of the acquisition expenditure carried forward in respect of each area of interest and where the carried forward carrying value is considered to be in excess of (i) above, the value of the area of interest is written down.

Capitalised acquisition expenditure is considered for impairment based upon areas of interest on an annual basis, depending on the existence of impairment indicators including:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted or planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Costs carried forward in respect of an area of interest that is abandoned are written off in the year in which the decision to abandon is made.

Pegmont Mines Limited

Notes to the Financial Statements

For The Year Ended 31 December 2010

1. Statement of Accounting Policies (Continued)

q) Mineral Tenements

The Company's activities in the mining industry are subject to regulations and approvals including mining heritage, environmental regulation, the implications of the High Court of Australia decision in what is known generally as the "Mabo" case and any State or Federal legislation regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined and could effect any mining title area whether granted by the State or not.

r) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in creditors and borrowings in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with wages and salaries above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits only where there is a reasonable expectation that a liability will be incurred.

Superannuation

The amounts charged to the statement of financial performance for superannuation represents the contributions to superannuation funds in accordance with the statutory superannuation contributions requirements or an employee salary sacrifice arrangement. No liability exists for any further contributions by the Company in respect to any superannuation scheme.

Redundancy

The liability for redundancy is provided in accordance with work place agreements.

s) Contributed Equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

t) Earnings per share

Basic earnings per share is determined by dividing the operating profit after income tax attributable to members of Pegmont Mines Ltd by the weighted average number of ordinary shares outstanding during the year.

u) Share based payments

Where shares or options are issued to employees, including directors, as remuneration for services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity. No options were issued during the year.

Pegmont Mines Limited

Notes to the Financial Statements

For The Year Ended 31 December 2010

I. Statement of Accounting Policies (Continued)

v. Critical accounting estimates & judgements

In preparing this Financial Report the Company has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements: Exploration and evaluation expenditure is written off during the year in which it is incurred.

ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of capitalised acquisition expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Company decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

As at 31 December 2010, the carrying value of mineral tenements of the group is \$3,595,425 (2009-\$3,595,425)

Pegmont Mines Limited

		Consolidated		Parent entity	
		2010	2009	2010	2009
		\$	\$	\$	\$
2.	Income Tax Expense				
a)	Income tax expense				
	Current tax	-	-	-	-
	Deferred tax	-	-	-	-
b)	Numerical reconciliation of income tax expense to prima facie tax payable				
	Profit from continuing operations before income tax expense	(1,369,408)	1,686,891	(1,369,408)	1,686,891
	Prima facie tax payable at 30 %	-	506,067	-	506,067
	Timing and permanent differences	-	(506,067)	-	(506,067)
	Income tax/(refund) attributable to operating profit	-	-	-	-
3.	Trade and other Receivables (Current)				
	DME security deposits	25,017	35,460	25,017	35,460
	Other debtors	68,955	43,913	67,856	43,385
	GST control account	49,910	37,126	49,910	37,126
Pre	payments	6,337	13,606	6,337	13,606
		<u>150,219</u>	<u>130,105</u>	<u>149,120</u>	<u>129,577</u>
4.	Available for sale financial assets (Current)				
	Quoted Shares	1,872,398	4,289,971	1,621,784	3,763,917
	Unlisted Investments – at fair value	-	-	-	-
	Closing balance at 31 December	<u>1,872,398</u>	<u>4,289,971</u>	<u>1,621,784</u>	<u>3,763,917</u>
5.	Cash and cash equivalents (Current)				
	Cash at bank and on hand	58,827	122,799	58,825	122,797
	Cash on deposit	2,090,647	891,530	2,090,647	891,530
		<u>2,149,474</u>	<u>1,014,329</u>	<u>2,149,472</u>	<u>1,014,327</u>

Pegmont Mines Limited

Notes to the Financial Statements

For The Year Ended 31 December 2010

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
6. Held-to-Maturity Investments (Non-current)				
Shares in controlled entities	-	-	199,361	199,361
Loans to (from) subsidiaries				
Loan to subsidiary	-	-	206,967	467,992
Loan from subsidiary	-	-	(50,332)	(50,332)
Provision for non-recovery	-	-	(104,281)	(90,437)
At fair value 31 December 2010	-	-	251,715	526,584
7. Property, Plant and Equipment				
Property, plant & equipment - at cost	347,386	340,933	347,386	340,933
Less: Accumulated depreciation	(232,970)	(164,783)	(232,970)	(164,783)
	114,416	176,150	114,416	176,150
Reconciliation of carrying amount				
Opening balance at 1 January 2010	176,150	244,336	176,150	244,336
Plant & equipment acquired during year	6,452	-	6,452	-
Disposals	-	-	-	-
Depreciation during year	(68,186)	(68,186)	(68,186)	(68,186)
Closing balance at 31 December 2010	114,416	176,150	114,416	176,150
8. Mineral Tenements (Non-Current)				
Pegmont Lead-Zinc project at cost	893,807	893,807	893,807	893,807
Revaluation	2,106,193	2,106,193	2,106,193	2,106,193
At fair value	3,000,000	3,000,000	3,000,000	3,000,000
Pegmont regional exploration areas at fair value	350,000	350,000	350,000	350,000
Reefway Pty Ltd royalty at fair value	100,000	100,000	100,000	100,000
New Hope project acquisition at cost	145,425	145,425	145,425	145,425
	3,595,425	3,595,425	3,595,425	3,595,425

The Pegmont regional exploration areas are adjacent to the Pegmont mining leases with mineralisation spreading across the tenement boundaries and are therefore regarded as being part of the same project.

The Company's activities in the mining industry are subject to regulations and approvals including mining, heritage, environmental regulation, the implications of the High Court of Australia decisions in what is known generally as the "Mabo" and the "Wik" cases and any State or Federal legislation regarding native and mining titles. Approvals, although granted in most cases, are discretionary. The question of native title has yet to be determined and could affect any mining title area whether granted by the State or not.

Pegmont Mines Limited

For The Year Ended 31 December 2010

12(b) Directors and Director-Related Entities' Shareholdings

The interests of Directors and their Director related entities in shares and share options at the end of the financial period are as follows:

Name	Balance at the start of the financial period	Issued	Purchased/(Sold/)	Balance as the end of the financial period
(1) Shares				
JM Armstrong	750,000	-	-	750,000
MA Mayger	31,019,045	-	-	31,019,045
IN Sloan	50,000	-	-	50,000
Total shares	31,819,045	-	-	31,819,045

c) Key management personnel compensation

remuneration disclosures to the Directors' Report. The relevant information can be found in sections A-C of the remuneration report within the Directors' Report.

d) Related party transactions

Other than the transactions disclosed above there are no other transactions between related parties that require disclosure.

13. Segmental Information

The economic entity operates predominantly in one geographic location. The operations of the economic entity consist of mining and exploration for gold and other minerals and investment within Australia.

14. Remuneration Of Directors

	Related party		Consolidated		Parent entity	
			2010	2009	2010	2009
Directors' fees	JM Armstrong	Normal commercial	50,000	50,000	50,000	50,000
Directors' fees	IN Sloan	Normal commercial	20,000	20,000	20,000	20,000

Pegmont Mines Limited

Notes to the Financial Statements

15. Controlled Entities

Name	Inc	Class	Book value		Equity		Contribution to Group	
			2010	2009	2010	2009	2010	2009
			\$	\$	%	%	\$	\$
Pi Ibara Ventures Ltd	NSW	Ord	19,359	19,359	100	100	(13,844)	373,871
Queensland Copper Mines Pty Ltd	NSW	Ord	1	1	100	100	-	-
Kimberley Ventures Ltd	NSW	Ord	180,001	180,001	60	60	-	-
			<u>199,361</u>	<u>199,361</u>				
Contribution to Group Profit (Loss) after minorities								
Parent - Pegmont Mines Ltd							<u>(1,355,564)</u>	<u>1,313,020</u>
Profit (loss) for year - group							<u>(1,369,408)</u>	<u>1,686,891</u>
Loans to (from) subsidiaries								
Provision for loss			156,635	417,660				
			<u>(104,281)</u>	<u>(90,437)</u>				
Net cash provided for operating activities								

	2010	2009	2010	2009
	\$	\$	\$	\$
16. Reconciliation Of Cash				
Cash as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the balance sheet as follows:				
Cash at bank	58,827	122,799	58,825	122,797
Call deposits	2,090,647	891,530	2,090,647	891,530
	<u>2,149,474</u>	<u>1,014,329</u>	<u>2,149,472</u>	<u>1,014,327</u>

Cash at bank bear a weighted average interest rate of 4.0%

17. Reconciliation Of Net Cash Outflow From Operating Activities To Operating Loss After Income Tax

Operating Profit (Loss)	(1,369,408)	1,686,891	(1,369,408)	1,686,891
• Depreciation provision	68,186	68,186	68,186	68,186
• Unrealised loss on investments	(2,578,196)	(946,065)	(2,465,199)	(1,058,334)
Net cash provided for operating activities	<u>(2,772,224)</u>	<u>1,615,502</u>	<u>(2,645,683)</u>	<u>1,237,078</u>

The Company has no credit standby or financing facilities in place other than disclosed on the statement of financial position.

Pegmont Mines Limited

For The Year Ended 31 December 2010

18. Subsequent Events

No other matter or circumstance has arisen since 31 December 2010 that has or may significantly affect the operations of the Company, the results of the Company, or the state of affairs of the Company in the financial year subsequent to the financial year ended 31 December 2010.

19. Earnings Per Share (eps)

	Consolidated		Parent entity	
	2010 \$	2009 \$	2010 \$	2009 \$
(a) Basic (loss) per share				
(Loss) attributable to the ordinary equity holders of the Company	(1,369,408)	1,686,891	(1,369,408)	1,686,891
(b) Earnings used in calculating earnings per share				
Company	(1,369,408)	1,686,891	(1,369,408)	1,686,891

The weighted average number of ordinary shares on issue used in the calculation of basic earnings per share

51,476,796

50,886,796

51,476,796

50,886,796

The diluted earnings per share is not materially different from the basic earnings per share.

20. Financial Risk Management

The Company's activities expose it to a variety of financial risks.

Credit risk

The Company does not have any significant credit risk exposure to a single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk without taking account of the fair value of any collateral or other security obtained.

Cash flow and fair value interest rate risk

Although the Company has significant interest bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates. The Company monitors interest rates to obtain the best terms and mix of cash flow.

Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables

	Weighted Average Effective Interest Rate %	Variable Interest \$	Fixed Maturity Date		Non- interest Bearing \$	Total \$
			Less than 1 year \$	1 to 2 years \$		
2010						
Financial assets						
Cash	-	-	-	-	58,827	58,827
Interest bearing deposits	4.0	2,090,647	-	-	-	2,090,647
Receivables	-	-	-	-	150,219	150,219
		2,090,647	-	-	209,046	2,299,693
Financial liabilities						
Accounts payable	-	-	-	-	47,405	47,405
		-	-	-	47,405	47,405

Pegmont Mines Limited

Notes to the Financial Statements

For The Year Ended 31 December 2010

Liquidity risk

Prudent liquidity management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the NSX Listing Rules.

Financing arrangements

The Company has no financing facilities available to it

21. Auditors' Remuneration

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Amount received or due and receivable by the auditor for:				
a) Audit services				
Audit and review of financial reports under the Corporations Act 2001	24,000	26,000	24,000	26,000
b) Non Audit services				
Income tax return preparation	-	500	-	500
Total remuneration of auditors	<u>24,000</u>	<u>26,500</u>	<u>24,000</u>	<u>26,500</u>

The auditor of the Company and its subsidiaries is Rothsay Chartered Accountants.

The Company has received notification from the Company's auditor that he satisfies the independence criterion and that there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct in relation to the audit. The Company is satisfied that the non-audit services provided is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

22. Expenditure Commitments

Mineral Tenement Leases

In order to maintain current rights of tenure to mining tenements, the Company will be required to outlay in 2011 amounts of approximately \$ 284,000 (2009 \$ 260,000) in respect of tenement lease rentals and exploration expenditures to meet the minimum expenditure requirements of the various Mines Departments in Australia. These obligations will be fulfilled in the normal course of operations.



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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF PEGMONT MINES LTD

We have audited the accompanying financial report of Pegmont Mines Ltd (the Company") which comprises the statement of financial position as at 31 December 2010 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

Directors Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the Company, and have met the independence requirements of Australian professional ethical requirements and the Corporations Act 2001.



Chartered Accountants

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW).

**Audit opinion**

In our opinion the financial report of Pegmont Mines Ltd is in accordance with the Corporations Act 2001, including:

- a) (i) giving a true and fair view of the Company's and the group's financial position as at 31 December 2010 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Interpretations) and the Corporations Regulations 2001; and
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the remuneration report included in the Directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Pegmont Mines Ltd for the year ended 31 December 2010 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Frank Vrachas
Partner

Dated 18 March 2011

Pegmont Mines Limited

SUPPLEMENTARY INFORMATION

1. Issued Capital at 31 December 2010: 51,476,796 Ordinary Shares Fully paid

2. Share Holdings at 10 March 2011

(a) Distribution of Shareholders

Shareholding	Number of holders	Ordinary Shares
1-1000	1	1,000
1001-5000	1	5,000
5001 - 10,000	19	186,000
10,001 - 100,000	81	4,621,330
100,000 and over	40	46,663,466
	142	51,476,796

(b) Names of Substantial Shareholders shown in the Company's Register holding 5% or more of the Issued Capital of the Company are:

Shareholding	Number of Shares	% Issued Capital
Pegasus Enterprises Ltd	14,592,285	28.52
Malcolm A. Mayger Pty Limited	11,746,760	22.96
Malcolm A. Mayger Pty Limited and associates (including Pegasus Enterprises Limited)	31,019,045	60.62

(c) Interests associated with Malcolm A Mayger Pty Ltd hold 31,019,045 (60.62%) Ordinary fully paid shares.

Pegmont Mines Limited

Directors' Interests

	Shares
J M Armstrong —	
Direct	75,000
Indirect	675,000
I N S Sloan-	
Indirect	50,000
M A Mayger —	
Direct	300,000
Indirect*	30,719,045
Total Shares	31,819,045

*Includes Pegasus Enterprises Limited

Top Twenty Shareholders at 10 March 2011

	Number of Shares	% issued Capital
Pegasus Enterprises Ltd	14,592,285	28.35
Malcolm A Mayger Pty Ltd	11,746,760	22.82
Lozora Pty Ltd	1,985,000	3.86
Mc Donald Family S/F A/C	1,984,756	3.86
Malcolm A Mayger Superannuation Fund	1,100,000	2.14
Fitel Nominees Limited	1,100,000	2.14
Goldrim Investments Pty Ltd	1,100,000	2.14
P.& J Hutchins (PGH Super Fund)	1,000,000	1.94
Scepha Investments Pty Ltd	1,000,000	1.94
Mrs Betty Christine Steele	865,130	1.68
Mr I J Holland & Mrs D Holland	859,000	1.67
Bedel and Sowa Corp Pty Ltd	850,000	1.65
Perpetual Trustee Company Ltd	600,000	1.17
H Wallace-Smith and Co Pty Ltd	550,000	1.07
UBS Wealth Management Nominees P/L	500,000	0.97
Henroth Pty Ltd	500,000	0.97
Mr B McCubbing B McCubbing Super Fund A/C	500,000	0.97
WHI Securities Pty Ltd (Crown Credit Corporation A/C)	500,000	0.97
Martin Place Securities Staff Super Fund	450,285	0.87
Riomin Australia Gold Pty Ltd	400,000	0.78
	42,183,216	81.95
Other Shareholders	9,293,580	18.05
Total Issued Shares	51,476,796	100%

Pegmont Mines Limited

Investor Summary

- Listed on the National Stock Exchange of Australia.
- Last sale price 10 cents.
- Market Capitalisation is \$5.1 milion.
- Working Capital: \$4.1 milion at 31 December 2010.
- Enterprise value of mineral tenements: \$1.0 milion.

Exploration Strategy

- Focus is on the Mount Isa region:
 - Host to world class base metal deposits.
 - Extensively mineralised but under-explored.
 - Large areas of outcrop geology.
 - Exploration experience in Mt Isa region since 1991.
- Acquisition of prospects with demonstrated mineral potential.
- Drill ready targets to upgrade potential.
- Convert Mineralised Potential to Resource at Pegmont.
- Undertake preliminary metallurgical testwork.
- Sell advanced projects to mine operators for cash/shares and royalty.

Pegmont Mines Limited

Notes

Pegmont Mines Limited

CORPORATE INFORMATION

PEGMONT MINES LIMITED
ABN 97 003 331 682

Registered Office

C/- Walker Wayland Services P/L
Level 8, 55 Hunter Street
Sydney NSW 2000
Telephone: (02) 9951 5400
Facsimile: (02) 9951 5454

Corporate Office:

65 Hume Street
Crows Nest NSW 2065
Mail: PO Box 849,
Crows Nest NSW 1585
Phone: (02) 8437 3591
Fax: (02) 8437 3599
Website: www.pegmont.com.au

Listed on The National Stock Exchange of Australia

Website: www.nsx.com.au

Code: PMI

Directors

John M Armstrong	Non-Executive Chairman
Ian N S Sloan	Non-Executive Director
Malcolm A Mayger	Managing Director

Company Secretary

Christopher D Leslie

Share Registry:

C/-Computershare Investor Services Pty Ltd
Shareholder enquiries:
Telephone: 1300 850 505
Facsimile: (03) 94152500
Email: web.queries@computershare.com.au

Auditors:

Rothsay Chartered Accountants
Level 1, 12 O'Connell Street,
Sydney NSW 2000
Telephone: (02) 88155400
Facsimile: (02) 88155401



Pegmont

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Crows Nest NSW 2065
Mail: PO Box 849,
Crows Nest NSW 1585
Phone: (02) 8437 3591
Fax: (02) 8437 3599
Website: www.pegmont.com.au

Directors

John M Armstrong	Non-Executive Chairman
Ian N S Sloan	Non-Executive Director
Malcolm A Mayger	Managing Director

Company Secretary

Christopher D Leslie

Share Registry:

C/-Computershare Investor Services Pty Ltd
Shareholder enquiries:
Telephone: 1300 850 505
Facsimile: (03) 9473 2570
Website: www.computershare.com

Listed on The National Stock Exchange of Australia
Website: www.nsx.com.au
Code: PMI